LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7347 **NOTE PREPARED:** Jan 26, 2005
BILL NUMBER: HB 1808 **BILL AMENDED:**

SUBJECT: Cigarette manufacturer fee.

FIRST AUTHOR: Rep. Brown C **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill imposes a $0.025 fee on each cigarette sold by a manufacturer. It requires a nonparticipating manufacturer that does not sell cigarettes in Indiana to prepay the fee before selling cigarettes in Indiana. The bill also provides a credit against the fee to manufacturers in varying amounts. This bill establishes the Cigarette Manufacturer Fee Account in the state General Fund. It also distributes money in the account to: (1) human immunodeficiency virus (HIV) prevention programs; (2) community health center capital expenditures; and (3) the master settlement agreement fund. The bill requires a cigarette distributor to report certain information to the Department of State Revenue.

Effective Date: July 1, 2005.

Explanation of State Expenditures:

Explanation of State Revenues: This bill would have an indeterminable impact on state General Fund revenue. This bill provides another option for cigarette manufacturers not participating in the Tobacco Master Settlement Agreement (MSA) to legally sell cigarettes in Indiana.

Currently, a non-participating manufacturer (NPM) has two options: (1) become a participant in the MSA; or, (2) place $0.0167539 per cigarette in a qualified escrow account (this amount will increase to approximately $0.018 in 2007).

This bill provides the option for an NPM to pay a fee of $0.025 on each cigarette sold in Indiana. The $0.025 fee on each cigarette ($0.50/pack) sold by the NPM's would generate between $9.6M and $19.2M in FY 2006 and \$10.7M and \$21.1M in FY 2007. Due to the timing of the remittance of the fee, the estimate above includes collections from 11 of the 12 months that the fee is in effect.

This revenue estimate is based on the December 14, 2004, *State Revenue Forecast* and assumes that the affected cigarette brands account for 4% to 8% of the Indiana cigarette market.

The fee revenue would be deposited in the Cigarette Manufacturer Fee Account as established by this bill. The bill requires that the first \$2 M in the account to be used for programs operated by the state Department of Health. The bill provides that the next \$1 M in the account goes for capital expenditures of Community Health Centers, and any money remaining is deposited in the Tobacco Master Settlement Agreement Fund. The table below shows the distribution using the estimates for FY 2006 from above.

Distribution for FY 2006	**4% market share estimate (in millions)**	**8% market share estimate (in millions)**
Department of Health	\$2.0 M	\$2.0 M
Community Health Centers	\$1.0 M	\$2.0 M
Master Settlement	\$6.6 M	\$16.2 M
Total	\$9.6 M	\$19.2 M

Background: There are currently 40 to 45 NPM's selling cigarettes in Indiana. The number of NPM's is estimated to decrease going forward as more NPM's sign on as participants to the MSA. In 2003 the estimated number of packs sold by NPM's was approximately 34 million. Sun Tobacco sold approximately 7.5 million packs in 2003, and became a participant in the MSA beginning 2004. Therefore estimated number of packs sold by NPM's in Indiana for 2004 is 26.5 million.

The Attorney General has been successful in enforcing compliance by NPM's to deposit funds into a qualified escrow account. The money in this account is not a state asset. Statute requires that funds stay in the account for 30 years for use as possible settlement money, should the state decide to sue these manufacturers for damages from increased costs to the state health care system resulting from illnesses caused by their products.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Department of Health; Attorney General.

Local Agencies Affected: Community Health Centers.

Information Sources: Adam Warnke, 317-232-6240, Attorney General's Office; December 14, 2004, *State Revenue Forecast*.

Fiscal Analyst: Adam Brown, 317-232-9854.